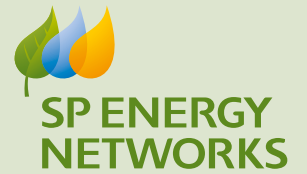


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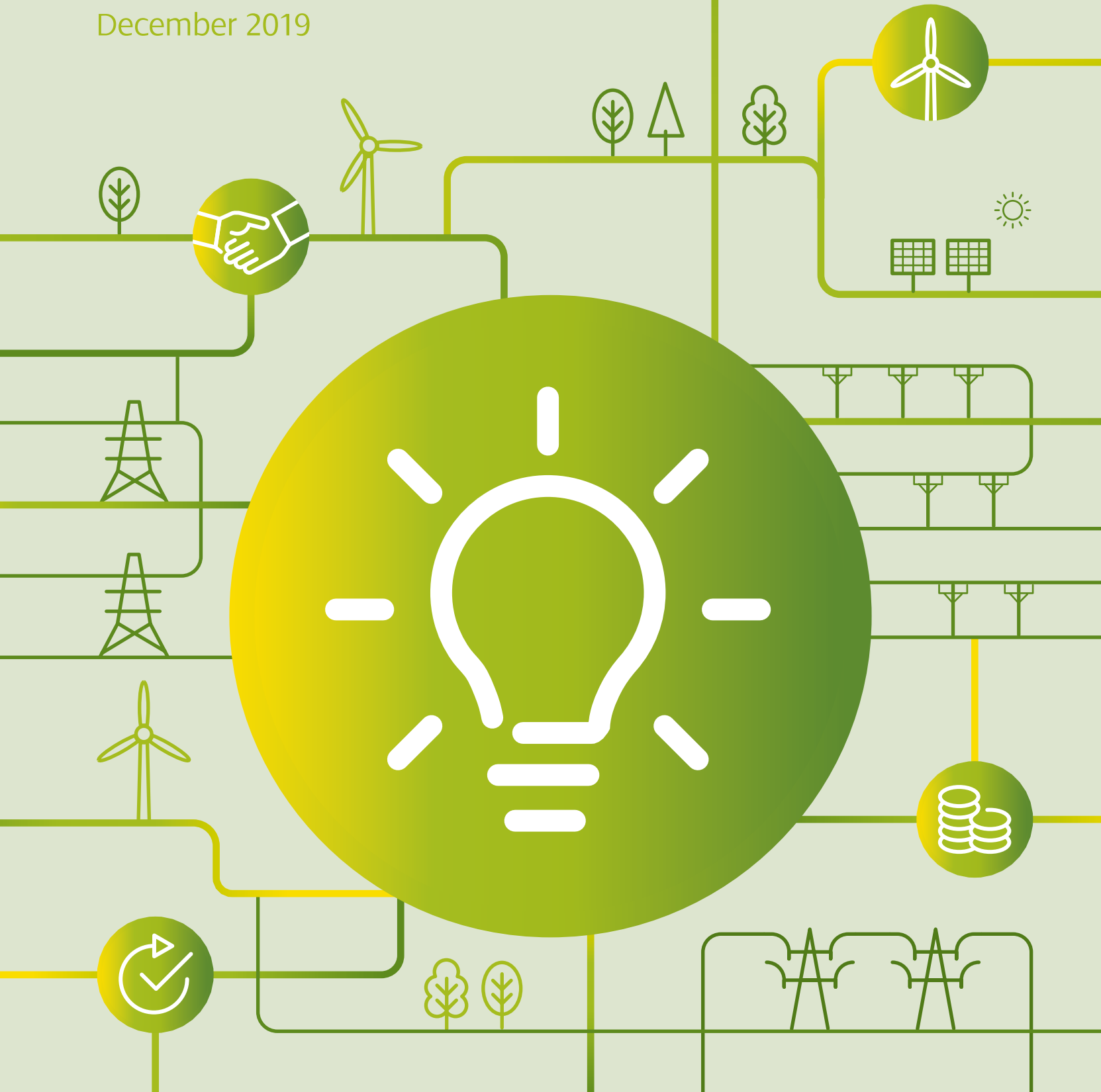


SP Energy Networks

Navigating our

RIIO-T2 Business Plan

December 2019



Your guide to the Plan

This document provides a user-friendly overview of the SP Energy Networks RIIO-T2 Business Plan.

We've outlined key elements of the business plan, how they're structured and added some key guidance points to help you navigate through the plan. Also contained within this document is a glossary which provides a definition of the common references that are used throughout the business plan.

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Strategic goals

We have set out four strategic goals that inform our plan and will help guide us in the crucial move towards facilitating Net Zero.

Every aspect of our plan has been shaped by these goals and we highlight these at the beginning of each chapter, making clear reference to how that chapter has contributed to achieving our 'Strategic Goals'.

A sustainable, Net Zero future



We will take the lead to build a healthier, more accessible energy model – one which leaves the carbon economy behind. We will meet carbon targets, customers' low-carbon ambitions, and make a large, proactive contribution towards Net Zero.

Increase efficiency through constant innovation



We will continue to improve our performance through a continual cycle of innovation. With smarter solutions, we can do more with less – deploying new technology, processes and ways to share data. Innovation will help us deliver uninterrupted supply, faster connections, and meet the ambitions of consumers, network users and wider stakeholders.

Adapt our world-class, resilient network

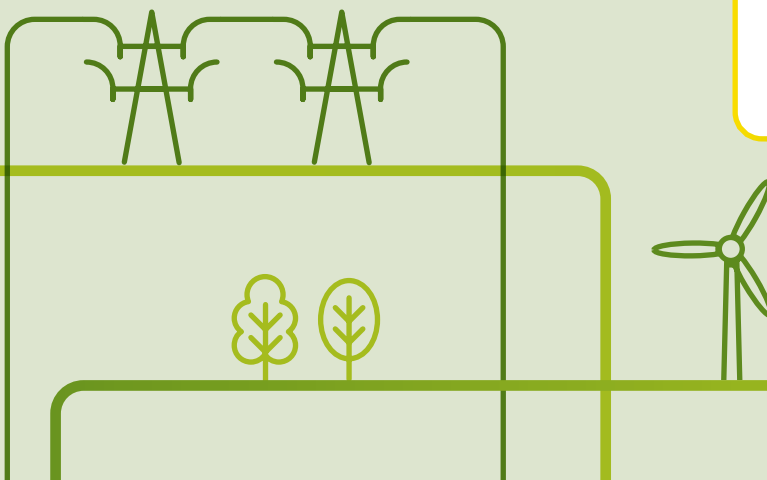


This is a critical time for networks. Demand is changing, generation is evolving, and new threats are emerging. We will adapt our world-class network to meet these challenges, including extreme weather, cyber security and black start events – delivering ever-higher performance for consumers, network users and wider stakeholders.

Keeping network users and consumers at the heart of our decisions



We will listen and learn even more from our stakeholders. This will allow us to continue to raise our efforts as we work to improve lives, create jobs and protect vulnerable consumers. In everything we do, we aim to do more.



The structure of our Business Plan

We've made our plan as simple as possible to navigate, while making sure it's still comprehensive in providing full evidence and justification. Broadly, the plan is divided into five sections. An overview of how we've structured the information and how you can track references between different sections is provided here.

To help with cross-referencing, we've used navigation aids throughout the plan. Here's how they work:

Page Tabs

Down the side of each page, you'll see eight tabs. These reflect the key guidance criteria set by Ofgem, which we have built our plan around. Where a tab is highlighted, it means that criteria are being addressed on this page. By including these tabs throughout the plan, it provides the reader with a consistent reference on what we are addressing at a glance, as they progress through the plan.

Managing uncertainty

Call out boxes

We have also included 'call out boxes' across the bottom of the pages, directing you to further detail on related topics as required. These call out boxes – as shown below – mostly point to other areas of the plan or, where appropriate, external documents.

For further details see **Annex 23: Our Assurance Framework.**

Signposts

Throughout the business plan, we have placed these signposts to help you navigate to different areas of the plan, annexes or external reference points.



Content in an external document.



Content within the business plan.

Section 1 – Welcome to Our Plan

In this opening section, we introduce you to the key objectives of our plan, detail some high-level numbers and look at how the plan has been shaped by our past performance. We do this in three chapters:

1. CEO Statement

This is where we set out the big picture of our plan and provide a strategic overview what we're aiming to achieve. Our CEO statement sets the tone for our business plan and highlights the key areas of focus by detailing the four strategic goals at the heart of our RIIO-T2 plan.

The key message: To mitigate the impacts of climate change and achieve a Net Zero future will require a level of focused effort and commitment never seen before.

2. Executive Summary

In this section we provide some high-level detail on the key facts and figures which appear throughout the business plan. The primary focus is on the impact of the numbers which shape our plan – highlighting the cost to the consumer while outlining the long-term benefits for the network, our stakeholders and the environment.

We give the reader an insight into what they can expect throughout our plan on the following areas:

Links some key high level numbers with our strategic goals at a glance.

A summary and breakdown of our expenditure and efficiency.

An overall RIIO-T2 expenditure breakdown with average costs compared with RIIO-T1 along with a summary of the drivers for any changes.

Summary of our forecast revenues.

Details on the impact on customer bills.

The Executive Summary also includes brief synopsis of each area of the business plan, set against Ofgem's guidance criteria.

3. Track Record

The 'Our Track Record' section of our business plan provides details on our RIIO-T1 performance to date, as well as giving an insight on our learnings and the impact this has had on our RIIO-T2 works and spends. Information is provided on a variety of performance areas, including Stakeholder Engagement scores from Ofgem and Totex performance. We remain dedicated to being open and honest, while building on our excellent track record.

Section 2 – Building Our plan

The chapters in this section are:

Co-creating the plan with our Stakeholders

Innovation Built In

Benchmarking Efficiency

Health and Safety

Whole System Planning

Each chapter begins with a summary sheet which provides an at-a-glance overview of what's included.

On the summary sheet you'll find:

Chapter Overview – a brief overview of what's covered in the chapter and an outline of the location of key information

Our vision – a high-level view of our expectations, ambitions, goals, and challenges for those areas in RIIO-T2

On the second page of each chapter, you will find details of how the engagement with our stakeholders and customers has informed the chapter content. This demonstrates how we engaged with our stakeholders and worked side by side, co-creating the business plan from the beginning, and includes any trade-off's made in shaping our plan.

To outline the stakeholder engagement involved in shaping each chapter, we use a consistent format detailing:

Purpose of stakeholder engagement for this chapter

How and why we have engaged with stakeholders

What our stakeholders have told us is important to them

How stakeholder feedback has shaped our plans

Why these changes are important.

Note: for the "Co-creating the plan with our Stakeholders" chapter, the details on stakeholder engagement are included throughout the chapter.

A financial breakdown is included in the 'An Environmentally Sustainable Network' chapter to provide transparency of the total cost of our RIIO-T2 Environmental sustainability package. These numbers form part of our overall investment and further details can be found within the section 'Proposed Expenditure Outputs' – while these numbers are contained within both areas, these costs are not double counted and you'll find a signpost directing you to more detailed information on these numbers.

Within the Environmentally Sustainable Network and Innovation areas, there is also an overview of the Consumer Value Propositions (CVPs) that each area expect to achieve. These appear at the start of the chapter with a brief description of potential savings or benefits. Further details on CVPs can also be found in **Annex 30: Consumer Value Propositions**.

Section 3 – Proposed Expenditure and Outputs

The chapters in this section are:

Load Related Expenditure

Non-Load Related Expenditure

Supporting and Securing our Network

All chapters within this section of the business plan relate to our planned investment. The beginning of each chapter includes details of the overall investment within the area, as well as a breakdown of how the investment is made up – and provides an indication of what these numbers mean for our customers' bills. Each of the chapters in this section also begins with a summary sheet and details how stakeholders have shaped the content, in line with section 2. The Load and Non-load sections also provide details of the Consumer Value Propositions (CVPs).

Section 4 – Implementing Our Plan

The chapters in this section are:

Continuing to Engage with our Stakeholders

Managing Uncertainty

Output Delivery Incentive Proposals

Delivering Our Plan

Financing our Plan Efficiently

This section covers the actions we will take to achieve our strategic goals. Again, each chapter begins with an overview of the key content, and details how our stakeholders have shaped our plan. The only exception to this is the 'Continuing to Engage with our Stakeholders' chapter – which specifically covers our continued engagement and the strategies we used to achieve this.

Within the 'Continuing to Engage with Our Stakeholders' chapter, we have provided details of the expected total expenditure. These numbers are highlighted here for information purposes and are not double counted despite also appearing in the 'Proposed Expenditure and Outputs' section – the page contains reference to where further details can be found.

The 'Output Delivery Incentive Proposals' chapter provides details on the CVP.

Section 5 – Assuring the quality of the Plan

This chapter's primary purpose is to outline our Governance and Assurance framework and how you can be confident that we have produced an efficient, ambitious and robust business plan.

You will still find a high-level overview of the chapter, our aims and a summary of contents and, as with the previous sections, call-out boxes and signposts are used to direct you to the relevant areas of the plan.

Supporting the document

Our business plan is limited to 200 pages. This means it's not possible to provide the full level of detail and evidence required within the core Business Plan.

To make sure we can justify and support our plan, we have created a number of annexes and supporting documents which align with our plan.

Each annex relates to a specific area of our business plan and these are referenced throughout the entire document, to ensure you can easily identify where the supporting information can be found.

We have submitted 36 annexes, containing over 340 documents in support of our business plan. A full list of annexes can be found in the following table:

Annex Name	Annex Description
Annex 1: Investment Packs	<i>Engineering Justification papers have been provided for all of our major expenditure areas, and where relevant a Cost benefit analysis to show the financial appraisal of different options considered. These have not been published due to the detailed costs that they contain and the associated commercial sensitivity.</i>
Annex 2: Sustainable Workforce Strategy	<i>Our Sustainable workforce strategy sets out how we will ensure a workforce fit for the future. This includes delivering a modern; diverse; high quality; well-trained and resilient workforce within our baseline regulatory settlement, without any additional funding or incentives.</i>
Annex 3: Strategic Investment Plans – Non Load	<i>This annex provides a more detailed explanation of the investment planning process and asset risk movements.</i>
Annex 4: Strategic Reinforcements	<i>This annex provides a strategic overview of the boundary upgrade projects which are considered as part of the Network Options Assessment Process. These projects have a degree of interdependence and are coordinated with other Transmission Owners. This annex complements the engineering justification papers for individual boundary upgrade projects.</i>
Annex 5: Co-creating the plan with our Stakeholders	<i>This annex details our programme of stakeholder engagement and research in the co-creation of our RIIO-T2 Business Plan. It details the role of the Transmission User Group throughout our RIIO-T2 planning, key planning meetings as well as their enduring role as we enter into the next price control. We also outline our approach to consumer and stakeholder research, techniques and methodologies adopted and highlight key research findings used to influence and inform our decision making.</i>
Annex 6: Innovation Strategy	<i>This annex provides more detail on our strategic focus, ambitions and culture of innovation. It provides a detailed breakdown of the proposed expenditure and expected benefits of our innovation activities in RIIO-T2.</i>
Annex 7: Environmental Action Plan	<i>This annex provides a comprehensive review of the environmental impact of our network and identifies the actions we will take during RIIO-T2 to address the opportunities and challenges these impact areas present.</i>
Annex 8: Cost benefit Analysis Process	<i>This annex explains how we have used Cost Benefit Analysis to determine the investment option that provides the most economical outcome for consumers.</i>
Annex 9: Cost of Capital NERA Report	<i>We commissioned NERA Economic Consulting (NERA) to estimate the cost of equity and to assess the correct optimal trailing average to use in the cost of debt indexation mechanism, including an estimation of the halo effect and to set out estimates of the additional costs of borrowing, for the RIIO-2 price control period.</i>
Annex 10: Real Price Effects NERA Report	<i>We commissioned NERA Economic Consulting (NERA) to advise on the appropriate treatment of real input price inflation, known widely as Real Price Effects (RPEs), and ongoing productivity improvement over the RIIO-T2 control period from 2021/22 to 2025/26. RPEs capture expected changes in the input prices faced by us, relative to general inflation.</i>
Annex 11: Business Plan Data Tables	<i>Annex 11 sets out proposed cost, volume and output delivery information for RIIO-T2 period in a format determined by Ofgem. It covers both qualitative and quantitative information that will be used by the regulator to better understand the submission by the licence company and facilitate a full and proper assessment of the investment (Totex) on the network requirement for the RIIO-T2 price control period.</i>
Annex 12: Output Delivery Incentives	<i>In RIIO-2, output delivery incentives (ODIs) will apply where service quality improvements beyond a level that is funded through base revenues may be in the interests of consumers. Our annex sets out our proposed ODIs based on feedback from our stakeholders, including Willingness to Pay studies. For each incentive, we have explained how this will operate, including all relevant performance targets.</i>
Annex 13: Investment process	<i>This annex describes the structured process we use to identify investments. It describes our internal governance processes to ensure that the work we do has the right scope and that our investments are economical, efficient and co-ordinated. This has not been published to due to commercial sensitivity.</i>
Annex 14: Planning Scenarios Baringa Report	<i>This is an independent report provided by Baringa Partners to detail the methodology and results of the Future Energy Scenarios that have been used to underpin our load related expenditure.</i>
Annex 15: RIIO-T2 Central and Southern Scotland Electricity Scenarios 2019	<i>A summary of the Future Energy Scenarios which was published earlier this year and summarises the detailed analysis undertaken by Baringa.</i>

Annex 16: NERA – Risk Modelling for RIIO-T2	<i>SPT commissioned NERA Economic Consulting to develop a financial risk modelling platform for the RIIO-T2 price control review. The main aim of this model is to assess the financeability of SPT over the period from 2021/22 to 2025/26.</i>
Annex 17: RIIO-T2 Project Team	<i>This annex provides an overview of the RIIO-T2 project team and the experience of the work stream leads.</i>
Annex 18: Competition Plan	<i>We have a responsibility to develop and maintain an economic, efficient and coordinated transmission network. We extensively use market driven competition to do this for the benefit of consumers. Our Competition Plan sets out our existing competitive processes called “Native Competition”. The plan also focuses on Ofgem’s proposed competition models referred to as “Early” and “Late” competition. In addition, our Competition plan also sets out which RIIO-T2 price control projects we believe meet the criteria for Ofgem’s “Early” and “Late” competition models.</i>
Annex 19: Investment Plan Additional Analysis	<i>This annex provides a more detailed analysis of the Load and Non-Load related investment plans, and the network operations plan. This includes analysis of the costs and activity levels of the main categories of expenditure compared to RIIO-T1. This has not been published due to the detailed costs that they contain and the associated commercial sensitivity.</i>
Annex 20: Uncertainty Mechanisms	<i>A detailed justification of the various uncertainty mechanisms that are proposed in the Business Plan.</i>
Annex 21: Strategic Investment Plan – Load	<i>A summary of the process that has been taken to create the load related expenditure plans and the interaction between various.</i>
Annex 22: Supply Chain	<i>Details of the engagement we have undertaken with our supply chain to ensure our confidence in our ability to deliver our plan and fulfil the ambitions we have set out.</i>
Annex 23: Our Assurance Framework	<i>This provides an overview of the risk assessment methodology used for our risk-based Assurance framework. Information is also provided on our external assurance providers, their final reports are not published due to commercial sensitivity.</i>
Annex 24: Business IT Security Strategy	<i>This annex provides information on our forecast activities for cyber security related to business IT systems. This has not been published due to the sensitivity of the content.</i>
Annex 25: Finance	<i>Our Finance annex explores in more detail our approach to financing our plan. We have performed a full review of all financial information requested in Ofgem guidance and Consumer Challenge Group correspondence, as well as any information we believe to be relevant to our business plan.</i>
Annex 26: Financial Model	<i>Annex 26 contains the financial data templates that Ofgem requires us to complete in order to derive our revenues, financial statements and ratios that underpin our overall financeability assessment. This is Ofgem’s Business Plan Financial Model (BPFM).</i>
Annex 27: Track Record (CCG queries from early 2019)	<i>This annex contains the documents provided in response to an information request from the RIIO2 Consumer Challenge Group in the first half of 2019. This provides detailed analysis and commentary on the TPCR4 and RIIO-T1 periods. This has not been published due to the detailed costs that they contain and the associated commercial sensitivity.</i>
Annex 28: Strategy for Engaging Stakeholders in RIIO-T2	<i>Our comprehensive strategy for engaging with our stakeholders during the RIIO-T2 period, including a series of annual performance commitments.</i>
Annex 29: Estates	<i>This annex provides further information on our organisation and operation of our Fleet, Estates and Building support operations.</i>
Annex 30: CVP Assumptions	<i>Details of the Consumer Value Propositions (CVPs) included in our plan including the assumptions which underpin them.</i>
Annex 31: Output Summary	<i>Snapshot table as requested by Ofgem in their Business Plan Guidance.</i>
Annex 32: Cyber Resilience Plan	<i>This annex details our activities for Operational Technology cyber security, including activities to ensure compliance with the Network and Information Systems directive. This has not been published due to the sensitivity of the content.</i>
Annex 33: Sharing Factor	<i>Our views on an appropriate totex incentive sharing factor for our RIIO-T2 plan based on a review of the various parts of the plan. This has not been published due to commercially sensitive information which it contains.</i>
Annex 34: Our Supplementary Business Plan	<i>Ofgem’s working assumptions, particularly around the cost of equity, are not aligned to our views. We believe a higher rate of return is necessary based on the risks and challenges we face. This annex provides details of our analysis based on the advice of independent economic advisers and the support we have received from stakeholders. It is important that this is viewed in the context of the full plan.</i>
Annex 35: Consolidated Network Access Policy Proposal	<i>All Transmission Owners are required to develop one consolidated Network Access Policy (NAP). The purpose of the NAP is to facilitate efficient performance and effective liaison between the ESO and the TOs in relation to the planning, management and operation of the transmission system for the benefit of consumers. Within our Output Incentives annex, we have provided a milestone plan which highlights the key dates and stages involved in turning our RIIO-T2 draft Network Access Policy proposal document into a final industry approved document by the 31st December 2020, ready for implementation on 1st April 2021.</i>
Annex 36: Engineering and Corporate Support	<i>Annex 36 explores in more detail our indirect support costs for both engineering and corporate services, setting out what these costs represent and how they compare to RIIO-T1 and the wider industry.</i>

Glossary

In order to assist you in your journey through our plan, we have provided a glossary of all the relevant terms you will read throughout. This should provide a useful insight into the terms and references made within our plan.

A	Allowed revenue	<i>The amount of money we can earn on our regulated business.</i>
	Arithmetic Mean	<i>A simple average. This is the sum of all observations, divided by the number of observations.</i>
B	Base revenue	<i>The amount of revenue we are allowed to recover, as agreed up-front with Ofgem.</i>
	Black Start	<i>The series of actions necessary to restore electricity supplies to customers following a total or widespread partial shutdown of the GB Transmission System.</i>
	Bond	<i>A debt instrument used by companies and governments to finance their activities.</i>
	Business Carbon Footprint (BCF)	<i>The BCF scheme is a reputational incentive to encourage DNOs to be proactive in measuring and reducing the carbon impact of their operations.</i>
	Business Plan Incentive	<i>This incentive encourages TOs to forecast their costs accurately and maximises long-term value for money for their customers. This incentive applies to the RIIO-2 price control and replaces the previous IQI incentive utilised for the RIIO-1 period.</i>
C	Capital Asset Pricing Model (CAPM)	<i>A theoretical model that describes the relationship between risk and required return of financial securities.</i>
	Capital expenditure (Capex)	<i>The money we invest in tangible assets, such as underground cables, overhead electricity lines and substations.</i>
	Capitalisation policy	<i>The approach the regulator follows in deciding the percentage of total expenditure added to the Regulatory Asset Value and the percentage of expenditure remunerated in the year it's incurred.</i>
	Carbon footprint	<i>Total amount of greenhouse gas emission caused directly and indirectly by a business or activity.</i>
	Closely Associated Indirect Costs (CAIs)	<i>The indirect operating costs that support our operational activities.</i>
	Consumers	<i>Users of network services (for example generators, shippers) as well as domestic and business end consumers, and their representatives.</i>
	Cost Benefit Analysis (CBA)	<i>Where there are two or more options that we could invest in, cost benefit analysis allows us to weigh up the long-term costs and benefits for each option and select the one that gives the greatest benefit balanced against long-term value for money.</i>
	Cost of capital	<i>The minimum acceptable rate of return on capital investment. Includes the cost of debt to a firm and the cost of equity.</i>
	Cost of debt	<i>The interest rate that a company pays for its loans.</i>
	Cost of equity	<i>The rate of return on investment required by a company's shareholders.</i>
	Customers Interrupted (CI)	<i>The number of customers in every 100, whose supplies have been interrupted per year over all incidents where an interruption of supply lasts for three minutes or longer.</i>
	Customer Minutes Lost (CML)	<i>The duration of interruptions to supply per year – average customer minutes lost per customer per year, where an interruption of supply to customer(s) lasts for three minutes or longer.</i>

D	Defined Benefit Scheme	<i>A pension scheme where the benefits that accrue to members are normally based on a set formula taking into account the final salary and accrual of service in the scheme. It is also known as a final salary pension scheme.</i>
	Defined Contribution Scheme	<i>A pension scheme where the benefits that accrue to members are based on the level of cash contributions made to an individual account; the returns on those funds are used to provide a cash amount to purchase an annuity on retirement.</i>
	Demand connection	<i>A new or modified connection that enables the premise to receive a supply of electricity from the electricity transmission system.</i>
	Depreciation	<i>Depreciation is a measure of the consumption, use or wearing out of an asset over the period of its economic life.</i>
	Design Life	<i>The period over which an asset is designed to last.</i>
	Distributed Generation	<i>Generation connected to the network, such as wind turbines, domestic solar panels, photo-voltaic farms, hydroelectric power and biomass generators.</i>
	Distribution Network Operators (DNOs)	<i>DNOs are the organisations that look after the networks transporting electricity to end users such as homes and businesses.</i>
	Dividend Growth Model (DGM)	<i>A model used to estimate the cost of equity. This derives the cost of equity as the discount rate which sets the present value of projected future dividends equal to the current share price.</i>
E	Electricity Distribution Price Control Review 1 (RIIO-ED1)	<i>The price control review applied to the electricity distribution network operators, following DPCR5. This price control started on 1 April 2015.</i>
	Equity beta	<i>Measures the co-variance of the returns on a stock with the market return.</i>
	Equity risk premium	<i>A measure of the expected return, on top of the risk-free rate, that an investor would expect for a portfolio of risk-bearing assets.</i>
F	Fast money	<i>Fast money is the revenue that is recovered in the year of expenditure; the proportion of Totex which is not added to the licensee's RAV balance and is effectively included in the licensee's revenue allowance for the year of expenditure.</i>
	Financeability	<i>We use financial models to determine whether we are capable of financing our necessary activities and earning a return on our regulated asset value (RAV). This financeability is assessed using a range of different financial ratios.</i>
	Fuel poverty	<i>A fuel poor household is defined as one that needs to spend 10% or more of their household income on all fuel use in order to maintain a satisfactory heating regime.</i>
G	Gearing	<i>A ratio describing the extent to which a company is financed through borrowing.</i>
	Geometric Mean	<i>A measure of the average value of a set of numbers, sometimes viewed as a better measure of the true average than the arithmetic mean it is calculated as the nth root (where n is the number of observations) of the product of all observations.</i>
	Gigawatt Hour (GWh)	<i>Equal to one million Kilowatt Hours.</i>
	Greenhouse gas (GHG)	<i>A collection of gases which absorb infrared radiation and trap its heat in the atmosphere.</i>
H	Health Index (HI)	<i>The Health Index (HI) is a framework for collating information on the health (or condition) of assets and for tracking changes in their condition over time. Following the introduction of the monetised risk methodology, health indices are applied only to non-lead assets.</i>
	The Health and Safety Executive (HSE)	<i>The government body responsible for enforcing health and safety legislation.</i>
	High Voltage (HV)	<i>Voltages over 1kV up to, but not including, 22kV.</i>

I	Incentive Strength	See 'Totex Incentive Mechanism'.
	Indexation	The adjustment of an economic variable so that the variable rises or falls in accordance with the rate of inflation.
	Inflation index	This is a measure of the changes in given price levels over time. A common example is the Retail Prices Index (RPI), which measures the aggregate change in consumer prices over time.
	Information Quality Incentive (IQI)	This incentive encourages TOs to forecast their costs accurately and maximise long-term value for money for their customers. This incentive applies to the RIIO-1 price control period.
L	Low carbon economy	An economy which has a minimal output of greenhouse gas emissions.
	Low Voltage (LV)	This refers to voltages up to, but not including, 1kV.
N	National Grid Electricity Transmission (NGET)	The electricity transmission licensee in England & Wales.
	Net Present Value (NPV)	NPV is the discounted sum of future cash flows, whether positive or negative, minus any initial investment.
	Non-Load Related Expenditure (NLRE)	The replacement or refurbishment of assets which are either at the end of their useful life due to their condition, or need to be replaced on safety or environmental grounds.
	Non-Operational Capex	Non-Operational Capex
O	Office of Gas and Electricity Markets (Ofgem)	Ofgem regulate the gas and electricity markets in the UK, encouraging competition to raise standards of service and give customers long term value for money.
	OHSAS 18001	International standard for the management of occupational health and safety.
	Operating Expenditure (Opex)	The costs of the day to day operation of the network such as engineering and support costs, repairs and maintenance expenditures.
P	Pass through (of costs)	Costs for which companies can vary their annual revenue in line with the actual cost, either because they are outside the DNO's control or because they have been subject to separate price control measures.
	Pension protection fund (PPF)	The fund, established under the provisions of the Pensions Act 2004, to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation.
	Pension scheme Administration	The range of activities that pension scheme trustees are required by legislation to undertake or commission in running the pension scheme.
	Pension scheme established deficit	The difference between assets and liabilities, determined at any point in time, attributable to pensionable service up to the end of the respective Cut-Off Dates and relating to Regulated Business Activities under Pension Principle 2. The term applies equally if there is a subsequent surplus.
	Pension scheme incremental deficit	The difference between the assets and liabilities, determined at any point in time, attributable to post Cut-Off Date pensionable service and relating to Regulated Business Activities. The term also applies equally where there is a surplus for the post cut-off date regulated Notional incremental deficit sub-fund.
	Price control (control)	The control developed by the regulator to set targets and allowed revenues for network companies. The characteristics and mechanisms of this price control are developed by the regulator in the price control review period depending on network company performance over the last control period and predicted expenditure in the next.

R Real Price Effects (RPE)	<i>Increase in prices, of materials, direct staff or contract labour, over and above increases in the Retail Price Index.</i>
Regulatory Asset Value (RAV)	<i>A financial balance representing expenditure by the licensee which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its RAV in its price control allowed revenues.</i>
Return on Regulatory Equity (RoRE)	<i>The financial return achieved by shareholders in a licensee during a price control period from its out-turn performance under the price control. The return is measured using income and cost definitions contained in the price control regime (as opposed to accounting conventions) and is expressed as a percentage of (share) equity in the business. Importantly, in the calculation the gearing (proportions of share equity and debt financing in the RAV) and cost of debt figures used are those given as the 'assumed' levels in the relevant price control final proposals. The aim of the RoRE measure is to provide an indication of the return achieved by the owners of a licensee which can be compared to the cost of equity originally allowed in the price control settlement and to the return achieved by other licensees on an equivalent basis.</i>
S Scotland Gas Networks (SGN)	<i>The gas transporter licence holder for Scotland gas distribution network.</i>
Scottish Hydro-Electric Transmission Limited (SHETL)	<i>The electricity transmission licensee in northern Scotland.</i>
Scottish Power Transmission Limited (SPTL)	<i>The electricity transmission licensee in southern Scotland.</i>
Secondary Deliverables	<i>Indicators of performance which may be used in support of the companies' required primary outputs.</i>
Sharing Factor	<i>See 'Totex Incentive Mechanism'.</i>
Slow money	<i>The proportion of Totex which is added to the licensee's RAV balance on which the licensee receives a revenue allowance to cover finance (WACC) and depreciation costs.</i>
Smart grid	<i>A generic term for a range of measures that are used to operate electricity networks allowing more generation or demand (load) to be connected to a given electricity circuit without the need for traditional reinforcement (or upgrade) of that equipment.</i>
Stakeholder	<i>Anyone with an interested in, or affected by our operations.</i>
Straight line depreciation	<i>Depreciates the asset value in a linear fashion throughout its useful life. Calculated by dividing the Gross Book Value of an asset by its expected useful life.</i>
Sulphur Hexafluoride (SF ₆)	<i>An insulating gas frequently used in electrical equipment which is also potent greenhouse gas.</i>
Supervisory Control and Data Acquisition (SCADA)	<i>This is the term used for the systems used to monitor and control network assets. It comprises the remote terminal units, communication infrastructure and human interface within central control rooms.</i>
Sustainable development	<i>Refers to economic development which meets the needs of the present without compromising the ability of future generations to meet their own needs.</i>
Sustainable energy sector	<i>A sustainable energy sector is one which promotes security of supply over time; delivers a low carbon economy and associated environmental targets; and delivers related social objectives (e.g. fuel poverty targets).</i>

T	Transmission Investment for Renewable Generation (TIRG)	<i>A mechanism designed to fund transmission projects specific to connecting renewable generation outside of the price control allowance to minimise delays.</i>
	Tonnes of Carbon Dioxide Equivalent (tCO ₂ e)	<i>Emissions of greenhouse gases other than CO₂ are converted into a CO₂ – equivalent figure using conversion factors published by DEFRA.</i>
	Total Expenditure (Totex)	<i>The aggregate net network investment, net network operating costs and indirect costs.</i>
	Totex Incentive Mechanism (TIM)	<i>TIM is the financial reward (or penalty) that companies are given in allowances for under or over spend on Totex. Opening base revenues will be modelled on the basis that actual Totex expenditure levels are expected to equal allowed Totex expenditure levels (allowances). If actual (outturn) expenditure differs from allowances, for any relevant year during the price control period, the TIM provides for an appropriate sharing of the incremental amount (whether an overspend or underspend) between consumers and licensees. The Totex Incentive Strength Rate represents the licensees' share; the Sharing Factor represents the consumers' share.</i>
	Totex Incentive Strength Rate (incentive strength)	<i>The incentive strength represents the percentage that a licensee bears in respect of an overspend against allowances or retains in respect of an underspend against allowances.</i>
	Transmission Price Control Review 4 (TPCR4)	<i>TPCR4 established the price controls for the transmission licensees covering the years 2007-2012.</i>
	Triennial Valuation	<i>An actuarial valuation of a pension scheme which has been carried out to meet the requirements of Section 224(2)(a) of the Pensions Act 2004 and which details in a written report, prepared and signed by the Scheme Actuary, the value of the scheme's assets and Technical Provisions. Actuarial valuations are usually produced every three years, but the term may also refer equally to any full actuarial valuation that is not an Updated Valuation.</i>
U	Uncertainty mechanisms	<i>Uncertainty mechanisms allow changes to the base revenue during the price control period to reflect significant cost changes that are expected to be outside the company's control. Examples include revenue triggers and volume drivers.</i>
V	Vanilla Weighted Average Cost of Capital (Vanilla WACC)	<i>The combined cost rate of funding calculated using a pre-tax cost of debt and post-tax cost of equity weighted by notional gearing.</i>

